

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Jackson County Road Commission	County Jackson
Fiscal Year End 12/31/06	Opinion Date 5/31/07	Date Audit Report Submitted to State 6/15/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

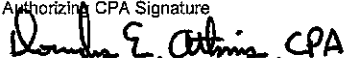
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Markowski & Company, CPAs		Telephone Number 517-782-9351	
Street Address 2880 Spring Arbor Road		City Jackson	State MI
		Zip 49203	
Authorizing CPA Signature 		Printed Name Douglas E Atkins, CPA	
		License Number 1101016353	

JACKSON COUNTY ROAD COMMISSION

(A COMPONENT UNIT OF JACKSON COUNTY, MICHIGAN)

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2006

JACKSON COUNTY ROAD COMMISSION

ANNUAL FINANCIAL REPORT

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MICHIGAN ASSOCIATION OF
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ESTATE PLANNING COUNCIL OF
SOUTH CENTRAL MICHIGAN

INDEPENDENT AUDITOR'S REPORT

To the Board of Road Commissioners
Of Jackson County
Jackson, Michigan

We have audited the accompanying basic financial statements of the **JACKSON COUNTY ROAD COMMISSION** (a component unit of Jackson County, Michigan) as of and for the year ended December 31, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Jackson County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Jackson County Road Commission as of December 31, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information presented on pages 3-7 and 30-31 respectively, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Jackson County Road Commission taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Jackson County Road Commission. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2007 on our consideration of the Jackson County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



MARKOWSKI & COMPANY, CPAs

May 31, 2007

JACKSON COUNTY ROAD COMMISSION
Management's Discussion and Analysis
Year Ended December 31, 2006

Using this Annual Report

The Jackson County Road Commission's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the commission's financial activity, (c) identify changes in the commission's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the commission as a whole and about its activities in a way that helps answer the question of whether the commission as a whole is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the commission's net assets and changes in them. The reader can think of the commission's net assets (the difference between assets and liabilities) as one way to measure the commission's financial health or financial position. Over time, increases or decreases in the commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Commission's Major Fund

Our analysis of the commission's major fund begins on page four. The fund financial statements begin on page eight and provide detailed information about the major fund. The commission currently has only one fund, the general operations fund, in which all of the commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental fund – Governmental fund focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation in the notes to the financial statements.

JACKSON COUNTY ROAD COMMISSION
Management's Discussion and Analysis
Year Ended December 31, 2006

The Road Commission as a Whole

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown in the condensed statement of net assets below, the Road Commission's assets exceed liabilities by \$75,279,766.

The commission's net assets increased approximately 3% from \$72,742,846 to \$75,279,776 for the year ended December 31, 2006.

Net assets as of the years ending December 31, 2006 and December 31, 2005 follows:

	2006	2005
Current and other assets	\$ 6,370,885	\$ 6,792,969
Capital Assets	70,928,172	67,312,451
Total Assets	<u>\$ 77,299,057</u>	<u>\$ 74,105,420</u>
Long Term liabilities outstanding	\$ 674,112	\$ 285,511
Other liabilities	1,345,179	1,077,063
Total Liabilities	<u>2,019,291</u>	<u>1,362,574</u>
Net Assets		
Invested in capital assets	70,518,132	67,340,658
Invested in inventory	1,616,821	1,623,122
Unrestricted	3,144,813	3,779,066
Total Net Assets	<u>75,279,766</u>	<u>72,742,846</u>
Total Liabilities and Net Assets	<u>\$ 77,299,057</u>	<u>\$ 74,105,420</u>

JACKSON COUNTY ROAD COMMISSION
Management's Discussion and Analysis
Year Ended December 31, 2006

Condensed Statement of Activities
Years Ended December 31, 2006 and 2005

	2006	2005
Revenues		
Program revenues:		
Charges for services	\$ 2,080,870	\$ 2,588,733
Federal Grants	1,987,436	1,860,476
State Grants	11,598,332	11,345,820
Intergovernmental revenues	1,224,428	1,084,401
Generated revenues		
Interest income	140,504	124,679
Property Rentals	33,710	29,374
Gain on Asset Disposal	855,173	192,699
Other general revenues	77,089	101,636
Total Revenues	17,997,542	17,327,818
Program expenses		
Primary roads		
Maintenance	3,484,996	3,912,217
Local roads		
Preservation	157,014	238,400
Maintenance	4,517,338	5,156,358
State trunkline		
Maintenance	1,885,970	2,417,697
Non-maintenance	118,700	61,567
Non motorized grant – County Parks	69,650	-
Net Equipment Expense	727,229	442,379
Administrative	658,520	617,677
Depreciation	3,826,999	3,593,804
Debt Service	14,207	-
Total Expenses	15,460,623	16,440,099
Change in Net Assets	\$ 2,536,919	\$ 887,719

JACKSON COUNTY ROAD COMMISSION
Management's Discussion and Analysis
Year Ended December 31, 2006

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2006 the fund balance of the general operations fund decreased \$685,713 as compared to a decrease of \$921,548 in the fund balance for the year ended December 31, 2005.

Budgetary Highlights

Prior to the beginning of any year, the commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year. The revenue budget for 2006 was lower than expected and the expenditure budgets were as expected. The Michigan Transportation Fund revenue is decreasing and expected to remain flat or decrease further.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2006 and 2005 the commission had \$70,928,172 and \$67,312,451 respectively, invested in capital assets as follows:

Capital Assets not being depreciated:	
Land and improvements	\$ 923,080
Infrastructure land and improvements	15,258,182
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>16,181,262</u>
Other Capital Assets:	
Building and Improvements	6,237,745
Road Equipment	13,226,601
Other Equipment/assets	2,258,579
Infrastructure	79,627,780
Total Other Capital Assets	<u>101,350,705</u>
Less - Accumulated Depreciation	<u>(46,603,795)</u>
NET OTHER CAPITAL ASSETS	<u>54,746,910</u>
TOTAL CAPITAL ASSETS	<u>\$ 70,928,172</u>

JACKSON COUNTY ROAD COMMISSION
Management's Discussion and Analysis
Year Ended December 31, 2006

Current year's major additions included the following:

Reconstruction of bridges:		
Coonhill Road Bridge	\$	286,199
Parsons Road Bridge		512,831
Road Reconstruction:		
E. Michigan Ave. from G.L. to Hayball Rd.		1,608,066
E. Michigan Ave. from G.L. to Rank Rd.		786,204
South Street from Francis to Brooklyn Rd.		1,045,393
Lansing Ave from Parnall to Morrill Rd.		239,082
Heavy Equipment		2,189,296

Debt

The road commission currently experiences an increased debt status. The road commission currently has long-term debt in the amount of \$674,112 which represents compensated absences payable of \$264,072 and equipment leases payable of \$410,040.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The commission derives approximately 64% of its revenues from the fuel tax collected. The recent economic downturn and increased fuel prices has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed. Also, the increased in fuel price results in increased expense for the Road Commission to operate equipment and trucks for road maintenance. The outlook is not optimistic to maintain the current service level as revenues decrease and expenses increase.

The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Jackson County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Jackson County.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the commission's finances and to show the commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Jackson County Road Commission administrative offices at 2400 North Elm Ave., Jackson, MI 49201.

JACKSON COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS:

GOVERNMENT WIDE/FUND FINANCIAL STATEMENTS

JACKSON COUNTY ROAD COMMISSION
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Governmental Funds	Adjustments	Statement of Net Assets
Assets:			
Cash and cash equivalents	\$ 1,247,676	\$ -	\$ 1,247,676
Receivables	2,298,351	-	2,298,351
Inventory	1,616,821	-	1,616,821
Capital assets - Net:			
Assets not being depreciated	-	16,181,262	16,181,262
Assets being depreciated (Net)	-	54,746,910	54,746,910
Receivables - Noncurrent	667,542	-	667,542
Deposits with Jackson County	540,495	-	540,495
Total Assets	<u>\$ 6,370,885</u>	<u>\$ 70,928,172</u>	<u>\$ 77,299,057</u>

Liabilities and Fund Balances/Net Assets

Liabilities:			
Accounts payable	481,579	-	481,579
Accrued liabilities	19,552	-	19,552
Accrued payroll	76,147	-	76,147
Performance bonds payable	46,190	-	46,190
Advances	721,711	-	721,711
Deferred revenue	703,606	(703,606)	-
Total current liabilities	<u>2,048,785</u>	<u>(703,606)</u>	<u>1,345,179</u>
Long-term liabilities	-	674,112	674,112
Total liabilities	<u>2,048,785</u>	<u>(29,494)</u>	<u>2,019,291</u>

Fund Balances:

Reserved	2,157,316
Unreserved and undesignated	2,164,784
Total fund balances	<u>4,322,100</u>
Total liabilities and fund balances	<u>\$ 6,370,885</u>

Net Assets:

Invested in capital assets net of related debt	70,518,132
Invested in inventory	1,616,821
Unrestricted	3,144,813
Total net assets	<u>\$ 75,279,766</u>

The notes to the financial statements are an integral part of this statement.

JACKSON COUNTY ROAD COMMISSION
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
THE YEAR ENDED DECEMBER 31, 2006

	Governmental Funds	Adjustments	Statement of Activities
Revenues:			
Permits	\$ 52,810	\$ -	\$ 52,810
Federal grants	1,987,436	-	1,987,436
State sources	11,598,332	-	11,598,332
Local government sources	1,159,841	64,587	1,224,428
Charges for services	2,028,060	-	2,028,060
Interest and rentals	174,214	-	174,214
Special assessments	69,074	(69,074)	-
Gain on asset disposals	837,110	18,063	855,173
Other revenues	77,089	-	77,089
Total revenues	17,983,966	13,576	17,997,542
Expenditures/Expenses:			
Primary roads - Construction/Preservation	3,058,150	(3,058,150)	-
Local roads - Construction/Preservation	4,018,569	(3,861,555)	157,014
Primary roads - Maintenance	3,484,996	-	3,484,996
Local roads - Maintenance	4,517,338	-	4,517,338
State trunkline maintenance	2,004,670	-	2,004,670
Non-motorized grant - County parks	69,650	-	69,650
Administrative - Net	679,959	(21,439)	658,520
Equipment expense - Net	727,229	-	727,229
Depreciation expense	-	3,826,999	3,826,999
Capital outlay - Net	504,951	(504,951)	-
Debt service	91,739	(77,532)	14,207
Total expenditures/expenses	19,157,251	(3,696,628)	15,460,623
Excess of Revenues Over (Under)			
Expenditures/Change in Net Assets	(1,173,285)	3,710,204	2,536,919
Other Financing Sources (Uses)			
Loan proceeds	487,572	(487,572)	-
Net Change in Fund Balances	(685,713)	3,222,632	2,536,919
Fund Balance/Net Assets - Beginning	5,007,813	67,735,034	72,742,847
Fund Balance/Net Assets - Ending	\$ 4,322,100	\$ 70,957,666	\$ 75,279,766

The notes to the financial statements are an integral part of this statement.

JACKSON COUNTY ROAD COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

JACKSON COUNTY ROAD COMMISSION
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JACKSON COUNTY ROAD COMMISSION
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JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity:

The Jackson County Road Commission is a Component Unit of the County of Jackson. The Road Commission is administered by a full time Board comprised of three Commissioners, appointed to staggered six year terms by the Jackson County Board of Commissioners. The Road Commission accounts for the Michigan Transportation Fund revenues distributed to Jackson County, and all other revenues provided for the construction and maintenance of primary and local roads within Jackson County (exclusive of those located within Cities and Villages). As of December 31, 2006, there were approximately 1,945 miles of roads maintained by the Jackson County Road Commission – 652 miles of paved primary roads, and 1,010 miles of paved and 283 miles of gravel local roads.

The financial statements of the Road Commission have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied unless they conflict with or contradict GASB pronouncements, in which case the GASB pronouncements prevail. The more significant of the Road Commission's accounting policies are described below.

Effective January 1, 2002 the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Some of the significant changes in the Road Commission's financial reporting as a result of this statement include:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Road Commission's overall financial position and results of operations is included with the financial statements.

Government-wide financial statements prepared using the full accrual accounting for all of the Road Commission's activities, including infrastructure (roads, bridges, etc.).

A change in the fund financial statements to focus on the major fund.

B. Basic Financial Statements – Government-Wide and Governmental Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the Road Commission. The Road Commission consists solely of governmental-type activities; it has no business-type activities.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT POLICIES: (Continued)

B. Basic Financial Statements – Government-Wide and Governmental Fund Financial Statements: (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to users or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other income not properly included among program revenues are reported instead as general revenue.

The fund financial statements are provided for governmental funds, and have been separately stated in conjunction with the government-wide financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Road Commission uses funds and account groups to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and a modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the fiscal year end.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Noncurrent receivables, such as special assessments and township agreements, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest charged on special assessment installments is not accrued until its due date.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT POLICIES: (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)

The Road Commission reports the following major fund:

Special Revenue Fund:

Road Fund – This fund is used to account for Michigan Transportation Fund monies and other monies which are earmarked for street and highway activities.

D. Budgetary Procedures:

Budgetary procedures are established pursuant to Michigan Act 621 PA 1978, as amended, (MCL 141.421). This act requires the commissioners to approve a budget for the general operating fund. Pursuant to the Act, the Road Commission has adopted the following procedures:

The Road Commission's Chief Administrative Officer (the secretary – clerk) prepares and submits a proposed Operating Fund budget to the Board of Road Commissioners for its review and consideration. The budget is prepared at the category level (Primary Construction/Heavy Maintenance, Primary Routine Maintenance, etc.). The Board of Road Commissioners conducts public budget hearings and subsequently adopts a budget. This budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

The budget as presented has been amended during the year by official action of the board, taken at a public meeting. All budget appropriations lapse at year end.

The Operating Fund budget of the Jackson County Road Commission includes an amount appropriated for an item called the Distributive Expense. The Distributive Expense consists of indirect costs related to construction projects (such as supervisory labor and fringes, etc.). For financial statement purposes, the Distributive Expense has been proportionately allocated to the other expense line items. As a result of this, comparison of budgeted to actual expense by line item can be misleading. This method does comply with the Michigan Department of Transportation guidelines.

E. Cash, Cash Equivalents, and Investments:

All investments of the Road Commission are reported at cost. It is the policy of the Road Commission that all investments with an original maturity of 90 days or less are accounted for as cash equivalents. The Road Commission's investments are made through the Jackson County Treasurer, thus providing for increased interest rates and revenue.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

F. Inventories:

Inventories are valued at cost as determined on the first-in, first-out method using average costs. Inventory items are charged to road construction, equipment maintenance, repairs, and operations as they are used.

G. Capital Assets and Depreciation:

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges and similar items), are reported in the general operating fund in the government-wide financial statements. The Road Commission considers assets with an initial individual cost of \$500 or more and an estimated useful life in excess of one year to be a capital asset. Capital assets are recorded at their historical cost (or, in the case of infrastructure assets, at estimated historical cost). Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repair and maintenance are expensed as incurred.

Depreciation is computed on the sum-of-the-years-digits method for road equipment, and the straight-line method for all other assets. Estimated useful lives are used as follows:

	<u>Years</u>
Buildings and Improvements	10-40
Road Equipment	5-8
Other Equipment	3-10
Gravel Pits	Actual usage
Infrastructure	8-50

GASB Statement No. 34 requires the Road Commission to report and depreciate new infrastructure assets effective with the beginning of the year. The Road Commission also elected to retroactively report existing infrastructure assets in the current year. Historically, the cost of infrastructure construction and heavy maintenance has been reported as an expense in the financial statements. Depreciation has not been reported on these assets. The cost of infrastructure retroactively capitalized was developed using the historical records for construction and heavy maintenance costs incurred, as heavy maintenance extends the useful life of the infrastructure. When an infrastructure asset is fully depreciated, both the cost and accumulated depreciation are removed from the fixed asset records.

H. Estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND
FINANCIAL STATEMENTS:**

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 4,322,100
Capital assets used in governmental activities; these are not financial resources and are not reported in the funds.	70,928,172
Special assessment and township receivables which are not collected within 60 days of year end are not available to pay current year expenditures. In the fund financial statements, a deferred revenue is established.	703,606
Compensated absences are not payable from current resources; a liability is not recognized in the fund financial statements.	(264,072)
Long term liabilities (debt) are not due and payable in the current period and, therefore they are not reported in the governmental funds balance sheet.	<u>(410,040)</u>
Government-wide net assets	<u><u>\$ 75,279,766</u></u>

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

Net changes in fund balances - Total governmental funds	\$ (685,713)
Capital asset acquisitions are reported as expenditures in the governmental fund financial statements; in the statement of activities, these costs are expensed over the useful life of the asset through depreciation. (The remaining heavy maintenance expense represents the cost of projects performed for others).	7,424,656
Depreciation	(3,826,999)
Proceeds from the sale of capital assets are reported as revenue in the governmental fund financial statements; only the net gain (loss) on the disposal of capital assets is reported in the statement of activities.	18,063
Special assessment and township road agreement billings are reported as revenue in the period billed in the statement of activities; they are not reported as revenue in the governmental fund financial statements until collected or collectable within 60 days of year end.	(4,487)
Accumulated sick and vacation pay is reported as an expense in the statement of activities when earned by employees; the governmental fund financial statements report the expenditure when paid to the employee.	21,439
Debt proceeds are reported as other financing sources in the fund financial statements. Proceeds are reported as a liability when received in the statement of net assets.	(487,572)
The payments of long term debt consumes the financial resources of governmental funds.	<u>77,532</u>
Change in net assets of governmental activities	<u><u>\$ 2,536,919</u></u>

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Michigan Public Act 621 of 1978, as amended, requires budgets amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. For the year ended December 31, 2006, the Road Commission's expenditures were in excess of the amounts appropriated, as follows:

	Final Amended Budget	Actual	(Excess Budget Variance)
Non-motorized grant - County parks	\$ -	\$ 69,650	\$ (69,650)
Debt service	-	91,739	(91,739)

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – CASH, CASH EQUIVALENTS, AND INVESTMENTS:

State statutes and Road Commission policy authorize the County Treasurer, on behalf of the Jackson County Road Commission, to deposit and invest in the following types of accounts:

(1) Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States; (2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution (but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States; (3) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services and that matures not more than 270 days from the purchase date; (4) Repurchase agreements consisting of instruments listed in subdivision (1) above; (5) Bankers' acceptances of United States banks; (6) Mutual funds registered under the Investment Company Act of 1940, that maintain a \$1.00 per share net asset value, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation; (7) Obligations described in (1) through (6) as named above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967; (8) Investment pools organized under the Surplus Funds Investment Act, 367 of 1982; (9) Investment pools organized under the Local Government Investment Pool Act, 121 of 1985.

(The above statute references refer to Michigan Public Acts).

The Road Commission's deposits are in accordance with statutory authority and Road Commission policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission minimizes this risk by investing in shorter term securities and holding them to maturity.

Concentration of Credit Risk

The Road Commission's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law. The cash accounts are held at one local financial institution. \$100,000 of the cash is covered by FDIC insurance; the remaining \$1,147,676 is uninsured.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized; collateralized with securities held by the pledging financial institution; or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Road Commission's name.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – CASH, CASH EQUIVALENTS, AND INVESTMENTS: (Continued)

The custodial credit risk for investments is that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Road Commission will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following provision for deposits: Michigan law (MCL 129.33) requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 100% of the total amount deposited by the public agencies.

The risk disclosure for the Road Commission's cash and cash equivalents is as follows:

	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
Cash on Hand	\$ 250	\$ -
Insured (FDIC)	100,000	100,000
Uninsured	<u>1,147,426</u>	<u>1,249,911</u>
	<u><u>\$ 1,247,676</u></u>	<u><u>\$ 1,349,911</u></u>

The Road Commission did not violate any of the provisions of its investment policies or state laws during the year ended December 31, 2006.

The cash at December 31, 2006 includes monies from performance bonds deposited by contractors with the County Treasurer in the County's Trust and Agency bank account. An offsetting liability has been established for the performance bonds payable. The balance payable, upon completion of projects with no damage to County roads, at December 31, 2006 was \$46,190.

NOTE 5 – RECEIVABLES/DEFERRED REVENUE:

A. Current Receivables:

Receivables at December 31, 2006 consist of accounts receivable from the ordinary course of operations, MTF funds for November and December due from the State, trunkline maintenance contract reimbursements and advances due from the State, current year special assessment collections due from the Jackson County Treasurer (due in May 2007), and payments due under Township road agreements.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – RECEIVABLES/DEFERRED REVENUE: (Continued)

Accounts receivable		\$ 141,757
Special assessments receivable - current		36,064
Due from other governments:		
MTF collections	\$ 1,718,759	
State trunkline maintenance	185,764	
State maintenance - Other	5,757	
Township road agreements - Current	210,250	2,120,530
Total receivables		<u><u>\$ 2,298,351</u></u>

The noncurrent receivables reported on the statement of net assets consist of special assessment and township road agreement payments not due within the next fiscal year.

B. Special Assessments:

In accordance with state statute, the Road Commission will pave local streets within subdivisions or residential areas following a process which is initiated by the request of at least 51% of benefiting property owners. It is the Road Commission's policy to spread the resident's payments out over a five year period by levying a special assessment on each winter tax bill. The winter tax bills are sent to property owners in December, and are due without penalty by February 14 of the following year. Interest is charged on installments after the first one, and prepayment is allowed. The Jackson County Treasurer collects the assessments and distributes the collections to the Road Commission each May.

Because the revenue is not available to the Road Commission within sixty days of year end, a deferred revenue liability account is established in the governmental fund financial statements to offset the receivable.

C. Township Road Agreements:

The Road Commission also paves certain local roads under a cost sharing agreement with the local townships. One half of the estimated project cost will be reimbursed by the township over a five year period. Installments are billed each December, and are payable upon receipt. The first three installments are interest free, each installment after that includes an interest charge. Prepayment is allowed. Because the installments billed in December 2006 will be collected within sixty days of year end(except for special assessments returned delinquent, which will be received by the Road Commission in may 2007), it is recognized as revenue in the governmental fund financial statements during 2006. A deferred revenue liability is established in the governmental fund financial statements for the remaining installments.

Installment billed/ levied in December	Noncurrent Receivable			Deferred Revenue
	Special Assessments	Twsp. Road Agreements	Total	
2006	\$ -	\$ -	\$ -	\$ 36,064
2007	22,145	356,029	378,174	378,174
2008	18,528	252,312	270,840	270,840
2009	18,528	-	18,528	18,528
	<u><u>\$ 59,201</u></u>	<u><u>\$ 608,341</u></u>	<u><u>\$ 667,542</u></u>	<u><u>\$ 703,606</u></u>

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – INVENTORIES:

The inventory at December 31, 2006 consisted of the following:

	Amount
Equipment materials and parts	\$ 382,466
Road materials	1,234,355
	<u>\$ 1,616,821</u>

NOTE 7 – CAPITAL ASSETS:

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land and land improvements	\$ 923,080	\$ -	\$ -	\$ 923,080
Infrastructure land and land improvements	15,258,182	-	-	15,258,182
Subtotal	<u>16,181,262</u>	<u>-</u>	<u>-</u>	<u>16,181,262</u>
Capital assets being depreciated:				
Buildings and improvements	5,971,372	266,373	-	6,237,745
Road Equipment	12,854,903	2,189,296	(1,817,598)	13,226,601
Other equipment	1,586,125	124,380	-	1,710,505
Gravel pits	548,074	-	-	548,074
Infrastructure	75,418,499	6,919,705	(2,710,424)	79,627,780
Subtotal	<u>96,378,973</u>	<u>9,499,754</u>	<u>(4,528,022)</u>	<u>101,350,705</u>
Less - accumulated depreciation for:				
Buildings and improvements	(3,940,466)	(332,614)	-	(4,273,080)
Road Equipment	(9,855,243)	(1,127,401)	1,347,877	(9,634,767)
Other equipment	(1,270,483)	(127,301)	-	(1,397,784)
Gravel pits	(147,017)	-	-	(147,017)
Infrastructure	(30,034,575)	(3,826,999)	2,710,427	(31,151,147)
Subtotal	<u>(45,247,784)</u>	<u>(5,414,315)</u>	<u>4,058,304</u>	<u>(46,603,795)</u>
Net capital assets being depreciated	<u>51,131,189</u>	<u>4,085,439</u>	<u>(469,718)</u>	<u>54,746,910</u>
Net capital assets	<u>\$ 67,312,451</u>	<u>\$ 4,085,439</u>	<u>\$ (469,718)</u>	<u>\$ 70,928,172</u>

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – DEPOSITS WITH JACKSON COUNTY:

A. Retiree Health Care Benefit Trust:

During 2004, the Road Commission deposited \$500,000 in a trust fund with Jackson County in an effort to begin funding its post-retirement health insurance obligation, under the authority of the Public Employee Health Care Fund Investment Act (Public Act 149 of 1999). An additional deposit of \$40,000 was accrued as of December 31, 2005. The Road Commission authorized the County Treasurer to invest these assets in accordance with the Public Employee Retirement Investment Act (Public Act 314 of 1965). The Road Commission is carrying the net asset held by the County in the trust fund as a deposit. Investment income, net of administrative expenses, has been recognized in the Road Commission's fund financial statements as interest revenue.

B. Self-Funded Managed Care Health Insurance Program:

The Road Commission participates with the County in a self-funded health insurance program. The Road Commission sends estimated premiums to the County fund (an internal service fund), which pays claims as presented (and accrues an allowance for claims incurred but not reported). The Road Commission recognizes the actual expenses in its financial statements, and the increase or decrease in its portion of the internal service fund as a change in the deposit with the County.

The deposits, and the current year changes in them, can be summarized as follows:

	<u>Retiree Health Care Benefit Trust</u>	<u>Self-Funded Managed Care</u>	<u>Total</u>
Deposit balance - Beginning of year	\$ 630,734	\$ 149,738	\$ 780,472
Contributions/premiums paid to County	-	1,470,890	1,470,890
Investment income (net of related expenses)	44,216	-	44,216
Expenses - Claims paid (net of reimbursements)	-	(1,755,083)	(1,755,083)
Current year change in deposits	<u>44,216</u>	<u>(284,193)</u>	<u>(239,977)</u>
Deposit balance - End of year	<u>\$ 674,950</u>	<u>\$ (134,455)</u>	<u>\$ 540,495</u>

Additional information on both of these balances is available in the County of Jackson audit report.

NOTE 9 – ACCRUED LIABILITIES:

The accrued liability at December 31, 2006 recognizes the amount of trunkline maintenance funds from 2003-2004 to be returned to the State of Michigan following the state's audit of expenditures charged to the maintenance contract. As a result, a liability of \$19,552 has been established.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – ADVANCES:

As part of its agreement with the Michigan Department of Transportation (MDOT) to maintain state and federal highways (trunklines) within Jackson County and portions of Lenawee County, MDOT provides upfront cash to assist with cash flow for equipment and operating purposes. The amount advanced is reviewed annually, and is to be returned upon termination of the contract. At December 31, 2006, these advances totaled \$721,711. As such, this money is reported as a liability by the Road Commission.

NOTE 11 – LONG-TERM LIABILITIES:

Long-term liabilities of the Jackson County Road Commission consist of the following at December 31, 2006:

Accrued Compensated Absences:

Paid time off is earned in varying amounts, depending on the number of years service. It is earned and credited to the employee on the employee's anniversary date. A maximum of 30 paid days off may be accumulated.

As of December 31, 1987, sick pay is no longer earned. The hours accumulated to that date were banked and disability insurance coverage was provided, covering employees the first day of injury or the eighth day of sickness.

Upon an employee's termination, unused vacation time is paid off at 100%; unused sick pay is paid off at 50%. Both are paid off at 100% if used during the course of employment. The liability for accrued compensated absences at December 31, 2006 is as follows:

	Beginning of Year	Change	End of Year
Accrued Vacation Pay (100%)	\$ 277,610	\$ (15,386)	\$ 262,224
Accrued Sick Pay (100%)	7,901	(6,053)	1,848
	<u>\$ 285,511</u>	<u>\$ (21,439)</u>	<u>\$ 264,072</u>

Changes in Long Term Debt:

	Debt Out- Standing 01/01/06	Additions of New Debt	Retirements and Repayments	Debt Out- Standing 12/31/06
Honeywell - Capital lease - Building improvements, \$266,372, maturing serially in quarterly amounts of \$9,489.50 at an interest rate of 7.84%	\$ -	\$ 266,372	\$ (13,318)	\$ 253,054
Caterpillar Financial - Road equipment - Three installment purchase agreements - monthly payments of \$2,205 at an interest rate of 4.85%	-	221,199	(64,213)	156,986
Total Long Term Debt:	<u>\$ -</u>	<u>\$ 487,571</u>	<u>\$ (77,531)</u>	<u>\$ 410,040</u>

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – FUND EQUITY/NET ASSETS:

Governmental Fund Financial Statements – Reserves and Designations:

Reserved Fund Balance in the Road Commission's Operating Fund was established to present the portion of fund equity which is not available for expenditure in future periods. The reserve at December 31, 2006 consists of the following:

<u>Reserved For:</u>	<u>Amount</u>
Inventories	\$ 1,616,821
Deposits with Jackson County	540,495
	<u>\$ 2,157,316</u>

NOTE 13 – FEDERAL/STATE GRANTS:

The Michigan Department of Transportation (MDOT) requires that the local Road Commission report federal and state grant revenues/expenditures for all projects within the Road Commission's jurisdiction. During 2006, federal and state aid reported as revenue and expenditures was \$2,847,662 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (as such, they are included in MDOT's single audit rather than the Road Commission's). The Road Commission acts as the contractor in negotiated projects. A summary of the 2006 grant projects is as follows:

<u>Project Number</u>	<u>Description</u>	<u>Federal Revenue</u>	<u>State Revenue</u>	<u>Expenditures Recognized</u>
56005A	Lansing Ave - Parnall to Cunningham	120,709	-	120,709
59711A	Coonhill Rd Bridge over Battice Creek	-	206,155	206,155
74485A	South Street	631,307	-	631,307
77114A	E. Michigan Ave. - Hayball Rd to Village	887,708	221,927	1,109,635
78234A	Territorial/Cooper intersection	2,832	-	2,832
79015A	Lansing Ave - Cunningham to Morrill	42,430	-	42,430
80590A	E. Michigan Ave/Rank Rd intersection	16,606	-	16,606
83233A	E. Michigan Ave - Grass Lake to Rank Rd	216,194	53,423	269,617
83581A	Parks - Lime Lake Causeway	69,650	-	69,650
83878A	Parsons Rd Bridge	-	378,721	378,721
		<u>\$ 1,987,436</u>	<u>\$ 860,226</u>	<u>\$ 2,847,662</u>

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 – EXPENDITURE/EXPENSE REPORTING:

In accordance with Michigan Department of Transportation guidelines, certain expenditures/expenses are reported net of related revenues. These are noted as 'net' on the basic financial statements, and are summarized as follows:

Administrative:

Administrative expenditures/expenses (A515 accounts)		\$	858,435
Less:			
Overhead charges - State	\$	(161,730)	
Handling charges		(10,248)	
Purchase discounts		(6,498)	(178,476)
			<hr/>
Administrative expenditure/expense - Net		\$	<u>679,959</u>

Equipment:

Direct equipment expenditures/expenses	\$	2,521,524
Indirect equipment expenditures/expenses		1,191,600
Operating expenses		632,801
		<hr/>
		4,345,925
Less - Equipment rental credits		(3,618,696)
		<hr/>
Equipment expenditure/expense - Net	\$	<u>727,229</u>

Capital outlay:

Capital outlay expenditure	\$	2,580,049
Less:		
Equipment retirements (Cost less accumulated depreciation)		(487,784)
Depreciation		(1,587,314)
		<hr/>
Capital outlay expenditure - Net	\$	<u>504,951</u>

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 – EMPLOYEES’ RETIREMENT PLAN:

The Jackson County Road Commission participates in the Jackson County Employees’ Retirement System, a defined benefit pension plan. This plan was established in accordance with applicable state and local statutes.

A. Employee Membership Data:

As of December 31, 2005 (the latest valuation data available) employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	117
Active plan participants:	
Vested	56
Nonvested	48
	<u>221</u>

B. Benefit Provisions:

The pension plan provides pension benefits, deferred allowances, and death and disability benefits. A member may retire at age 60 with 8 or more years of credited service. Benefits vest after eight years. Employees retiring at age 60 with eight or more years credited service are entitled to pension payments for the remainder of their lives equal to 2.5% of their final five year average compensation (FAC). The final five year average compensation is computed using the period of five consecutive years producing the highest average and contained within the last ten years preceding retirement. The County financed portion is limited to 75% of final average compensation.

Pension provisions include a deferred allowance whereby an employee may terminate his or her employment with the Road Commission after accumulating eight years of credited service. The pension benefit is payable at age 60 or any age allowed by the retirement by-laws at the time of retirement. The benefit amount is computed in the same manner as the regular benefit described above.

Provisions are also included for duty and non-duty disability or death benefits. Disability benefit payments are computed in the same manner as regular benefits. The minimum benefit for a disability is 15% of final average compensation, with the maximum County-financed portion limited to 50% of FAC and worker’s compensation. Non-duty disability benefits are payable only after 10 or more years of credited service. Death benefits are computed in the same manner as the regular benefits; in the case of a duty death, additional service credit will be granted up to the amount needed to be vested prior to computation of the retirement allowance of the spouse.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 – EMPLOYEES’ RETIREMENT PLAN: (Continued)

C. Required Contributions:

Employees of the Road Commission are required to pay 2.5%, plus 50% of the employer contribution above 2.5% (an employee contribution rate of 3.56% for 2005) of their gross earnings to the pension plan. The payments are deducted from the employee’s wages and remitted to the pension plan each bi-weekly pay period. If an employee leaves the Road Commission prior to vesting, these contributions plus interest are returned to the employee.

The Road Commission makes bi-weekly contributions to the pension plan in an amount as determined by the plan’s actuaries. For the year ended December 31, 2006, the required contribution was computed as 5.64% of covered payroll. The Road Commission pension expense for the year ended December 31, 2006 was \$233,512. The actuarial assumptions used to compute this amount are available in the County of Jackson’s Comprehensive Annual Financial Report.

Substantially all of the Road Commission’s employees are covered by this plan. The Road Commission’s total payroll for the year ended December 31, 2006 was \$4,445,949 with \$4,140,284 covered by the pension plan.

Trend information for the plan as a whole is presented below:

Schedule of Funding Progress

<u>Valuation</u> <u>Date Dec. 31.</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>% of Covered</u> <u>Payroll</u>
1996(a)	\$ 76,326	\$ 60,129	\$ (16,197)	126.9%	\$ 22,999	0%
1997(a)	\$ 87,010	\$ 64,468	\$ (22,542)	135.0%	\$ 23,802	0%
1998	\$ 100,030	\$ 68,577	\$ (31,453)	145.9%	\$ 24,209	0%
1999(a)	\$ 112,224	\$ 77,492	\$ (34,732)	144.8%	\$ 26,781	0%
2000(a)	\$ 120,724	\$ 84,373	\$ (36,351)	143.1%	\$ 27,224	0%
2001(a)	\$ 124,551	\$ 92,102	\$ (32,449)	135.2%	\$ 29,687	0%
2002 (a)	\$ 120,693	\$ 104,222	\$ (16,471)	115.8%	\$ 29,763	0%
2003 (a)	\$ 118,340	\$ 112,314	\$ (6,026)	105.4%	\$ 29,566	0%
2004	\$ 121,005	\$ 121,440	\$ 435	99.6%	\$ 31,519	0%
2005	\$ 125,487	\$ 128,872	\$ 3,385	97.4%	\$ 31,441	11%

Note: \$ amounts in Thousands; information is for the plan as a whole.

(a) After changes in benefit provisions and/or actuarial assumptions and cost methods.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 – EMPLOYEES’ RETIREMENT PLAN: (Continued)

Schedule of Employer Contributions					
Fiscal Year	Actuarial Value of Assets	Contribution Rates as a % of Valuation Payroll*	Computed \$ Contribution Based on Projected Payroll	Annual Required Contribution Based on Actual Payroll	Percentage Contributed
1997	12/31/95(a)	3.35%	\$ 830,477	\$ 780,271	100%
1998	12/31/96(a)	1.05%	\$ 262,012	\$ 254,050	100%
1999	12/31/97(a)	0.22%	\$ 55,039	\$ 59,036	100%
2000	12/31/98	0.00%	\$ -	\$ -	100%
2001	12/31/99(a)	0.00%	\$ -	\$ -	100%
2002	12/31/00(a)	0.00%	\$ -	\$ -	100%
2003	12/31/01	0.00%	\$ -	\$ -	100%
2004	12/31/02	6.21%/1.75%	\$ 1,477,934	\$ 1,477,934	100%
2005	12/31/03	6.96/3.97%	\$ 2,247,761	\$ 2,247,761	100%
2006	12/31/04	6.96%	\$ 2,367,969	\$ 2,367,969	100%

Note: \$ amounts in Thousands; information is for the plan as a whole.

(a) *After changes in benefit provisions and/or actuarial assumptions.*

* *Weighted averages.*

Some additional information relating to the actuarial assumptions used in the December 31, 2005 valuation follows:

Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percent of Payroll
Remaining amortization for	
Unfunded actuarial accrued	
Liability	30 years (open)
Remaining amortization period	
For credit	10 years (open)
Asset valuation method:	4 year smoothed market
Investment rate of return	8.00%
Projected salary increases	5.0%-8.8%
Includes inflation at	5.0%
Cost-of-living adjustments	none

The details of amounts attributable solely to the Road Commission were not available. Detailed information concerning the Jackson County Employees’ Retirement System is presented in the publicly available County of Jackson, Michigan Comprehensive Annual Financial Report. Copies of this report may be obtained from the Jackson County Administrator / Controller’s Office, 120 West Michigan Avenue, Jackson, Michigan, 49201.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 – COMMITMENTS AND CONTINGENCIES:

A. Claims and Lawsuits:

In the normal course of its operations, the Jackson County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

B. Trunkline Maintenance Audit:

As part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. During 2006, the State completed its audit of the 2003-2004 costs. As discussed in Note 9, the audit resulted in the Road Commission accruing a liability of \$19,552. The amount due under its 2005 - 2006 contracts has not been determined.

C. Commitments to Townships:

The Jackson County Road Commission is committed to providing the best road system possible to the residents of Jackson County. This commitment includes the Township Road Agreement matching program. The Road Commission offers to match \$50,000 of construction funds to each of the 19 townships within its jurisdiction. The match may be used up to three years in advance. This program has been highly successful, as Townships contracted for \$734,923 of new projects during 2006.

D. Concentrations:

The Road Commission receives approximately 86% (\$15.5 million) of its revenue from the state and federal governments. A large portion of these revenues (\$10.7 million) is derived from the collection of taxes on gasoline and diesel fuels. These revenues could be susceptible to an economic downturn.

NOTE 17 – RISK MANAGEMENT:

During the normal course of its operations the Jackson County Road Commission is exposed to various risks of loss related to liability, employee injury, and other circumstances. In certain instances, the Jackson County Road Commission has opted to protect itself from such risks through means other than the purchase of traditional insurance coverage. These exceptions are as follows:

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 – RISK MANAGEMENT: (Continued)

A. Liability Insurance:

The Jackson County Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for its liability insurance. The Pool is a municipal self-insurance entity operating within the laws of the State of Michigan.

The Pool has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Pool. In the event that a reinsurer does not meet its obligation to the Pool, the responsibility for payment of any unpaid claims reverts to the Pool, and, indirectly, to the Pool members.

B. Health Insurance:

The Road Commission participates jointly with the County of Jackson in the Jackson County Self-Funded Managed Care Health Insurance program. The premiums paid by the participating employers are the program's source of income, and expenses include: 1) the payment of claims; 2) the payment of an administrative fee; and 3) the payment of Stop-Loss insurance premiums (reinsurance). At December 31, 2006 (unaudited), the Road Commission had a deficit of \$134,455 in this Fund. The County of Jackson, Michigan Comprehensive Annual Financial Report provides further details regarding this insurance program.

C. Workers Compensation:

The Jackson County Road Commission participates in the County Road Association Self-Insurance Fund for its workers compensation insurance. The Pool is a municipal self-insurance entity operating within the laws of the State of Michigan.

The Pool has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Pool. In the event that a reinsurer does not meet its obligation to the Pool, the responsibility for payment of any unpaid claims reverts to the Pool, and, indirectly, to the Pool members.

NOTE 18 – POST-EMPLOYMENT HEALTH BENEFITS:

The Jackson County Road Commission pays for health insurance benefits for its retired employees and their beneficiaries through the Jackson County Self-Funded Managed Care Health Insurance program. These benefits are funded as incurred and totaled approximately \$703,000 for the year ended December 31, 2006. The total number of retirees covered by this plan at December 31, 2006 was approximately 112.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 – POST-EMPLOYMENT HEALTH BENEFITS: (Continued)

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care expenses over the working life of the employee, rather than when they are paid. This pronouncement is effective for the year ending December 31, 2008.

As discussed in Note 8, the Road Commission has set aside \$674,950 in a trust fund with the County in an effort to start pre-funding this liability. The Road Commission also commissioned a study to provide a “rough estimate” of the potential liability. The results of this study indicate that the liability for current retirees ranges from approximately \$7 - \$9 million; the liability for active employees ranges from approximately \$4 - \$5 million. This indicates a total liability of approximately \$11 - \$14 million dollars.

JACKSON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION

JACKSON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - ROAD FUND
YEAR ENDED DECEMBER 31, 2006

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue:				
Permits	\$ 40,000	\$ 52,810	\$ 52,810	\$ -
Federal grants	3,241,899	2,070,910	1,987,436	(83,474)
State sources	12,364,257	11,637,238	11,598,332	(38,906)
Local government sources	730,300	1,108,753	1,159,841	51,088
Charges for services -				
State trunkline maintenance	1,894,067	2,069,599	1,978,546	(91,053)
Other	-	-	49,514	49,514
Interest and rentals	40,000	174,214	174,214	-
Special assessments	51,000	68,156	69,074	918
Gain on asset disposals	-	866,555	837,110	(29,445)
Other revenues	500	172,782	77,089	(95,693)
Lease proceeds	-	487,572	487,572	-
Total revenues	18,362,023	18,708,589	18,471,538	(237,051)
Expenditures/Expenses:				
Primary roads - Construction	-	-	-	-
Local roads - Construction	-	-	-	-
Primary roads - Preservation	4,545,366	3,250,180	3,058,150	192,030
Local roads - Preservation	840,000	4,033,962	4,018,569	15,393
Primary roads - Maintenance	3,859,610	3,484,995	3,484,996	(1)
Local roads - Maintenance	4,351,105	4,517,339	4,517,338	1
State trunkline maintenance	1,894,071	2,004,670	2,004,670	-
Non motorized grant - County Parks	-	-	69,650	(69,650)
Distributive expense	1,381,488	-	-	-
Administrative - Net	1,875,656	679,959	679,959	-
Equipment expense - Net	-	727,229	727,229	-
Capital outlay - Net	(385,273)	626,136	504,951	121,185
Debt service	-	-	91,739	(91,739)
Total expenditures	18,362,023	19,324,470	19,157,251	167,219
Excess of Revenues Over (Under) Expenditures	-	(615,881)	(685,713)	(69,832)
Fund Balance - Beginning	5,007,813	5,007,813	5,007,813	-
Fund Balance - Ending	\$ 5,007,813	\$ 4,391,932	\$ 4,322,100	\$ (69,832)

JACKSON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
JACKSON COUNTY EMPLOYEES' RETIREMENT SYSTEM
DECEMBER 31, 2006

The information presented in the required supplementary schedule was determined as part of the actual valuation at the dates indicated.

<u>Valuation Date Dec. 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
1996(a)	\$ 76,326	\$ 60,129	\$ (16,197)	126.9%	\$ 22,999	0%
1997(a)	\$ 87,010	\$ 64,468	\$ (22,542)	135.0%	\$ 23,802	0%
1998	\$ 100,030	\$ 68,577	\$ (31,453)	145.9%	\$ 24,209	0%
1999(a)	\$ 112,224	\$ 77,492	\$ (34,732)	144.8%	\$ 26,781	0%
2000(a)	\$ 120,724	\$ 84,373	\$ (36,351)	143.1%	\$ 27,224	0%
2001(b)	\$ 124,551	\$ 92,102	\$ (32,449)	135.2%	\$ 29,687	0%
2002 (a)	\$ 120,693	\$ 104,222	\$ (16,471)	115.8%	\$ 29,763	0%
2003 (a)	\$ 118,340	\$ 112,314	\$ (6,026)	105.4%	\$ 29,566	0%
2004	\$ 121,005	\$ 121,440	\$ 435	99.6%	\$ 31,519	0%
2005	\$ 125,487	\$ 128,872	\$ 3,385	97.4%	\$ 31,441	11%

Note: \$ amounts in Thousands; information is for the plan as a whole.

(a) After changes in benefit provisions and/or actuarial assumptions and cost methods.

(b) Before changes in benefit provisions and/or actuarial assumptions and cost methods.

See Note 15 for more complete disclosures relating to the Road Commission's participation in the Jackson County Employees' Retirement System.

JACKSON COUNTY ROAD COMMISSION

ADDITIONAL INFORMATION

JACKSON COUNTY ROAD COMMISSION
ADDITIONAL INFORMATION
ANALYSIS OF CHANGES IN ROAD FUND BALANCE
YEAR ENDED DECEMBER 31, 2006

	Primary Road	Local Road	County Road Commission	Total
Revenue:				
Permits	\$ -	\$ -	\$ 52,810	\$ 52,810
Federal grants	1,917,786	-	69,650	1,987,436
State sources:				
Michigan Transportation Fund	7,229,753	3,508,353	-	10,738,106
State critical bridge grants	206,155	378,721	-	584,876
TED/STP grants	53,423	-	-	53,423
State Economic Development Fund grants	221,927	-	-	221,927
Revenues from local governments:				
Cities and villages	-	124,399	-	124,399
Township contributions	-	798,293	-	798,293
Other governments	-	237,149	-	237,149
Charges for services:				
State trunkline maintenance	-	-	1,865,043	1,865,043
State trunkline non-maintenance	-	-	113,503	113,503
Salvage sales	-	-	10,926	10,926
Fuel rebates	-	-	38,588	38,588
Interest and rentals:				
Interest	50,657	-	45,631	96,288
Investment earnings - Retiree Trust	-	-	44,216	44,216
Rental of property	-	-	33,710	33,710
Special assessments	-	69,074	-	69,074
Gain on asset disposal	-	-	837,110	837,110
Other revenue	15,302	50,513	11,274	77,089
Total revenue	9,695,003	5,166,502	3,122,461	17,983,966
Expenditures:				
Construction	-	-	-	-
Preservation/Structural Improvements:				
Roads	2,716,448	3,300,674	-	6,017,122
Structures	297,314	529,681	-	826,995
Safety projects	44,388	24,829	-	69,217
Special assessments	-	163,385	-	163,385
Non-motorized projects	-	-	-	-
Total preservation	\$ 3,058,150	\$ 4,018,569	\$ -	\$ 7,076,719

JACKSON COUNTY ROAD COMMISSION
ADDITIONAL INFORMATION
ANALYSIS OF CHANGES IN ROAD FUND BALANCE
YEAR ENDED DECEMBER 31, 2006

	Primary Road	Local Road	County Road Commission	Total
Expenditures: (Continued)				
Maintenance:				
Roads	\$ 2,646,645	\$ 4,049,452	\$ -	\$ 6,696,097
Structures	9,605	-	-	9,605
Roadside parks	4,599	-	-	4,599
Winter maintenance	362,538	248,663	-	611,201
Traffic Control	461,609	219,223	-	680,832
Total maintenance	3,484,996	4,517,338	-	8,002,334
Trunkline maintenance	-	-	1,885,970	1,885,970
Trunkline non-maintenance	-	-	118,700	118,700
Total trunkline	-	-	2,004,670	2,004,670
Non-motorized grant - County Parks	-	-	69,650	69,650
Administrative expenses:				
Administrative expenses	372,491	485,944	-	858,435
Less:				
Handling charges	(4,447)	(5,801)	-	(10,248)
Overhead - State	(70,175)	(91,555)	-	(161,730)
Purchase discounts	(2,819)	(3,679)	-	(6,498)
Net administrative expenses	295,050	384,909	-	679,959
Equipment expense:				
Direct expenses	694,428	1,137,207	689,889	2,521,524
Indirect expenses	328,039	537,449	326,112	1,191,600
Operating expenses	174,273	285,393	173,135	632,801
Less - Rental credits	(996,462)	(1,632,069)	(990,165)	(3,618,696)
Net equipment expenses	200,278	327,980	198,971	727,229
Capital outlay:				
Capital acquisitions	-	-	2,580,049	2,580,049
Less:				
Equipment retirements	-	-	(487,784)	(487,784)
Depreciation	-	-	(1,587,314)	(1,587,314)
Total capital outlay	\$ -	\$ -	\$ 504,951	\$ 504,951

JACKSON COUNTY ROAD COMMISSION
ADDITIONAL INFORMATION
ANALYSIS OF CHANGES IN ROAD FUND BALANCE
YEAR ENDED DECEMBER 31, 2006

	Primary Road	Local Road	County Road Commission	Total
Expenditures: (Continued)				
Debt service:				
Debt principle payment	\$ -	\$ -	\$ 77,532	\$ 77,532
Interest expense	-	-	14,207	14,207
Total debt service	-	-	91,739	91,739
 Total expenditures	 7,038,474	 9,248,796	 2,869,981	 19,157,251
 Excess of Revenue Over (Under) Expenditures	 2,656,529	 (4,082,294)	 252,480	 (1,173,285)
 Other Financing Sources (Uses):				
Loan proceeds	-	-	487,572	487,572
Optional transfers	(2,168,926)	4,082,294	(1,913,368)	-
Total other financing sources	(2,168,926)	4,082,294	(1,425,796)	487,572
 Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	 487,603	 -	 (1,173,316)	 (685,713)
 Fund Balance - Beginning	 2,634,222	 -	 2,373,591	 5,007,813
 Fund Balance - Ending	 \$ 3,121,825	 \$ -	 \$ 1,200,275	 \$ 4,322,100

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ESTATE PLANNING COUNCIL OF
SOUTH CENTRAL MICHIGAN

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Road Commissioners
Of Jackson County
Jackson, Michigan

We have audited the financial statements of the government activities and the aggregate remaining fund information of **JACKSON COUNTY ROAD COMMISSION** (a component unit of Jackson County, Michigan) as of and for the year ended December 31, 2006, which collectively comprise the Jackson County Road Commission's basic financial statements and have issued our report thereon dated May 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jackson County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jackson County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Jackson County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Jackson County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Jackson County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Jackson County Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Jackson County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Jackson County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Jackson County Road Commission in a separate letter dated May 31, 2007.

This report is intended solely for the information and use of the Board of Commissioners and the management of the Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Markowski & Company

MARKOWSKI & COMPANY, CPAs
May 31, 2007

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SOUTH CENTRAL MICHIGAN

To the Board of Road Commissioners
Jackson County Road Commission

COMMUNICATION OF AUDITOR/CLIENT RESPONSIBILITIES

We have audited the basic financial statements of the Jackson County Road Commission (the Road Commission) for the year ended December 31, 2006, and have issued our report thereon dated May 31, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated February 26, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Road Commission are described in Note 1 to the basic financial statements.

We noted no transactions entered into by the Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was management's estimate regarding infrastructure costs. We evaluated the key factors and assumptions used to develop these amounts in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Road Commission that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit. We were very pleased with the cooperation of the administrative staff during our audit.

Comments and Recommendations

During the course of performing our audit, we did note two items which we feel warrant comment. These are addressed in the accompanying Memorandum of Comments and Recommendations.

This information is intended solely for the use of the Board of Road Commissioners and management of the Road Commission and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Markowski & Company

MARKOWSKI & COMPANY, CPAs

May 31, 2007

JACKSON COUNTY ROAD COMMISSION
MEMORANDUM OF COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2006

Budgeting Procedures

As discussed in Note 3 in the accompanying financial statements, the Road Commission spent amounts in excess of the approved budget during the year ended December 31, 2006. This is a violation of Public Act 621 of 1978. The Road Commission should prepare budget amendments as necessary to avoid this situation in the future. The excess amounts were minor and insignificant to the overall financial statements.

Fuel Monitoring Controls

The Jackson County Road Commission maintains a small fuel tank for fueling Road Commission vehicles at its Elm Rd. complex. During our audit, we tested the controls in place relating to the access to and accounting for fuel from this tank. We found that the controls were insufficient. Amounts of gas used did not match the slips written to charge jobs, as required by Road Commission policy. We recommend that stronger controls be put in place to control the access to and accounting for fuel usage from this pump.